

**CITY OF BELLINGHAM**  
**Whatcom County, Washington**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. The City Should Prepare And Submit Timely Annual Financial Reports

The city's 1993 annual report was not prepared and submitted to the Office of State Auditor until August 1994, two months after the due date of May 30, 1994, as required by RCW 43.09.230.

When the city does not prepare and file financial reports as required by state law, users of the report are denied access to the city's financial information. Users and their concerns include:

- a. The Washington State Legislature, which receives a copy of the annual volume of comparative statistics for all municipalities published pursuant to RCW 43.09.230.
- b. The general public, which is interested in reports on the cost of public services.
- c. City council members, whose use of the report as a management tool is diminished when the report is not issued timely.

The report was late due to problems in completing the Water Fund and Sewer Fund financial statements.

We again recommend that the city officials ensure the timely preparation and filing of the annual report.

2. The City Should Improve The Internal Controls Over The Workorder Systems To Protect Inventory

Internal control weaknesses were noted in the Public Works and Fleet and Facilities workorder systems. Charges made on the workorders are not certified to indicate the materials and labor were actually used to perform the job. In addition, user departments do not have the opportunity to review the charges made to them for labor and materials.

RCW 43.09.200 states in part:

The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept or required to be kept, necessary to isolate and prove the validity of every transaction.

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize and report financial data . . . some of the specific objectives management may wish to consider include the following:

Transactions are executed in accordance with management's general or specific authorization.

Transactions are recorded as necessary . . . (2) to maintain accountability of assets.

The weaknesses noted in the city's workorder system result in the possibility of materials and labor being inappropriately charged to user departments. In addition, it increases the likelihood of misappropriations of inventory for personal use. The lack of opportunity for the user departments to review charges would allow these events to go undetected. Without certification, responsibility cannot be determined in the event of misappropriation. Management was not aware of these weaknesses or their potential effects.

We recommend the Public Works department and Fleet and Facilities ensure certification of all charges on workorders by the person responsible for making them. We also recommend management make all charges available to the user departments for review on a timely basis.

3. The City Should Monitor Outside Service Contracts To Assure Validity Of All Transactions

The city has contracted with outside parties to manage the daily operations of Lake Padden Golf Course and Bayview Cemetery. Deposits from the golf course were accepted by the city without any source documentation to support the amounts paid to the city. Commissions requested by the cemetery manager were paid without review for accuracy and adequate supporting documentation.

Other internal control weaknesses were noted in both systems. Poor cash handling procedures at the golf course included usage of a cash over and short envelope, mode of payment incorrectly entered, each day's deposits not made intact, lack of security over cash prior to deposit, and lack of review by city personnel. At the cemetery, the internal control weaknesses included an inadequate system to account for sales contracts and lack of review by city personnel.

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As a result of the lack of oversight over management contracts, no assurance can be given that all revenues due to the city were received and that all expenditures paid by the city were valid. In addition, the internal control weaknesses increase the likelihood of misappropriations without detection or the ability to assess responsibility. Management was not aware of these weaknesses or their potential effects.

We recommend the city ensure all revenues and expenditures are reviewed for accuracy and are supported by adequate source documentation. We also recommend the city ensure the systems used by the contracted managers are adequate to account for all transactions.

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**Schedule Of Federal Findings**

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1. The City Should Improve Its Accounting For Fixed Assets

Our review of the city's fixed assets again revealed the following weaknesses:

- a. The city does not maintain a comprehensive fixed asset detail ledger for general fixed assets or water/sewer utility assets.
- b. With the exception of the internal service funds and the water/sewer utility, the city does not have a system in place to account for surplus or retired assets.
- c. The city does not take a comprehensive annual physical inventory of its fixed assets.
- d. Federal assets are not consistently identified by a serial number or tag number.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments* Subpart A, \_\_\_\_3 Equipment (4)(d) states, in part:

(1) Property records must be maintained that include . . . a serial number or other identification number . . .

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . .

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, generally accepted accounting principles require accounting for fixed assets and related depreciation.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by city officials. As described in Note 6B, the city began recording fixed asset purchases in the general fixed asset group of accounts December 1, 1984, and information has been collected which will be helpful in valuing assets purchased prior to that time. City officials indicate that they are planning to implement computer software in the near future to account for their general fixed assets.

Adequate safeguarding or reporting of city fixed assets cannot be assured when accounting procedures and controls are not established. We consider these deficiencies in the fixed asset system to be a material instance of noncompliance and a material weakness in internal controls.

We again recommend the city:

- a. Establish and maintain a comprehensive detail ledger of general fixed assets and Water/Sewer Utility Fund assets.
- b. Ensure that surplus and retired assets are properly accounted for.
- c. Perform periodic physical inventories and reconcile to subsidiary ledgers.
- d. Provide a means to identify assets through a serial number or tag number.